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Brazil

Agricultural Situation

Changes in Trade Financing Restrictions

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Report Highlights:
This is an alert report. The Central Bank of Brazil changed the conditions for payment of foreign exchange operations up to 360 days. This will likely benefit imports transactions financed under GSM 102.

Includes PSD changes: No
Includes Trade Matrix: No
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Import Financing Restrictions Reduced

On March 19, 1999, the Brazilian Central Bank published Circular number 2,876 which greatly reduces the restrictions on short term import financing that were established through Circular number 2,747 of March 26, 1997.

Circular 2,876/99, which is effective March 19, 1999, allows for foreign exchange operations for payments of Brazilian imports, including payment of principal, and financed up to 360 days, to be paid promptly or for future liquidation. The maximum term admitted for foreign exchange contracts and their liquidation under this Circular is 360 days. The provisions of the Circular also apply to partial payments made during the first 360 days. For Import Declarations (Declarações de Importação, DI) registered on or after March 18, 1999, the Circular states that the foreign exchange operations for payments for Brazilian imports can be paid "until the last day of the second month following the month in which the DI was registered". Industry contacts understanding is that the Circular allows for 90-day financing but that given the timing of the documentation required, 120-day financing would be safer.

GSM-102 More Attractive?

It appears that this measure will make the GSM-102 program more attractive for U.S. exports to Brazil in CY 1999 as it allows for shorter-term financing (less than 360 days) which had previously not been possible. Basically, this change in Circular 2,747/97 reflects the difficulties for Brazilian exporters and importers to obtain credit in the international market after the January devaluation of the Real.

Background

On March 26, 1997, the Brazilian Government published Provisional Measure 1,569/97, signed by President and Circular No. 2,747/97, issued by the Central Bank of Brazil. These regulations were entered into force on April 1, and restricted import financing for less than 360 days for all goods imported into Brazil, except for petroleum imports, drawback, and small transactions of less than US$10,000. Initially, the measure were to be applied to imports from all countries, but on April 3, 1997, the Central Bank issued Circular No. 2,749/97 which provided for a partial exception to the import financing restrictions for products from MERCOSUL partners, as well as Chile and Bolivia. In the case of shipments with a value of less than US$ 40,000 from these countries import financing was permitted for up to 90 days.

The requirement was that for credit terms of 180 days or less, importers were required to close the exchange contract for the shipment by depositing the local currency equivalent of the full purchase price of the imported goods with an intermediary commercial bank in order to clear the shipment through Customs. For 180 to 360 day financing, payment to a local commercial bank had to be made 180 days in advance of the due date of the of the financing contract. The measure effectively eliminated supplier credit for less than 180 days and reduced the term of supplier credit in 180-360 day financing for imports.

The stated purpose of these measures was to avoid speculation in the capital market by Brazilian importers who have benefitted from arbitrage between the high cost of local financing and the relatively cheap foreign funding rates obtained by Brazilian importers using short term supplier credits. The Brazilian government argued that this was an exchange measure, not a trade measure. However, it was widely acknowledged that the restriction was implemented to stem the flow of imports in the face of a rapidly growing trade deficit. The measures also make the two USDA credit programs currently operational in Brazil; GSM-102 and the Supplier Guarantee Program, unattractive.

More recently, on February, 26, 1999, the Central Bank of Brazil published Circular No. 2,864/99 which extended the partial exemption form import financing restrictions for the MERCOSUL countries as well as for Chile and Bolivia until June 30, 1999. The exemption was due to end on February 28, 1999. The Circular also increased the value of shipments from these countries which could benefit from import financing of up to 90 days from US$ 40,000 to US$ 80,000.